

Fiscal Year 2002 - 1st Quarter Report

University of Delaware

Period of Coverage: October 1 - December 31, 2001

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A. PREVIOUS REPORT UPDATE

UD/FLAG is assisting United Bulgarian Bank (UBB) in utilizing USAID's Micro Enterprise and Small Business Loan Portfolio Guarantee, which is aimed at mobilizing credit for SMEs through the formal financial sector in Bulgaria.

B. MAJOR IMPLEMENTATION ACCOMPLISHMENTS

TRAINING

Trade Finance and Business Planning Seminar

UD/FLAG, jointly with the Varna Economic Development Agency, offered a seminar in Trade Finance and Business Planning on October 5. John Stocker, PhD in Finance, conducted the training. The seminar took place in Varna. Thirty-two participants attended the seminar including 26 representatives of 21 export-oriented Bulgarian companies including Alcomet, Bulbet Trade, Vist-66, Imilex, Peevi Ltd., Planex, Rubicon, Sanita Trading, Say Hi Ltd., Solvey Sodi, Trans Stoi-Varna, Herty, Hleboproizvodstvo Korn-Varna, Black Sea Consulting, Viktoria Unikat, Palcommerce, Paloma, Imilex Engineering, CIBank, SSK Varna, and CB Biochim. Also in attendance were representatives of seven institutions or associations: The Association of Black Sea Municipalities, National Park Golden Sands, Varna Municipality, Chamber of Commerce Varna, and three high schools.

UD/FLAG offered a Trade Finance and Business Planning Seminar in Haskovo in conjunction with the Union for Recovery and Development, a local NGO. The seminar was held December 5th and was attended by 12 representatives of five local businesses (Sveti Vrach, DEAL Ltd., Ivan Penev SP, ICR-Dimitrovgrad, KK Invest-Haskovo), two banks (Bank DSK and CB Biochim), and four private consultants. UD consultant Ilian Komitski facilitated the seminar.

The UD/FLAG Trade Financing and Business Planning Training Outreach helps companies understand the tools and techniques of planning and financing their businesses to improve performance in international markets. The training is focused on the following topics: the importance of a business plan, preparing pro-forma financial statements, increasing opportunities to obtain trade financing, and accessing local and international sources of trade financing.

Financial Management and Analysis Long-term Training Course

On October 22, UD/FLAG started a long-term training program in Financial Management and Analysis. This course runs for seven months and contains six sections and in-class sessions. Ninety participants from 57 Bulgarian export-oriented companies, financial institutions and NGOs are

enrolled in the course. The first in-class session was held November 17-18. The course instructors are highly qualified American and Bulgarian financial advisors and financial management experts with multiple years of experience operating businesses in Bulgaria and the United States.

The Financial Management and Analysis Long-Term Distance Learning course is based on the CFA (Chartered Financial Analyst) program's body of knowledge. This course helps export-oriented firms understand the most widely used techniques in finance, make solid investment decisions, find capital, reduce costs, and increase profits. The outcome of the training will be increased knowledge of global financial principles and the adoption of international accounting standards, resulting in increased competitiveness in international markets.

The course explores financial management concepts, tools, and techniques employed by leading firms around the world. The training curriculum emphasizes the global application of investment principles suitable for analyzing fixed income, equities, derivative instruments, and real estate. The body of knowledge is divided into two modules. The autumn module of the course is focused on basic concepts of financial management, including a review of the accounting process, quantitative methods used in finance, and key macro and micro economic concepts. The spring module is designed to review more advanced topics – international accounting standards (IAS), cost accounting techniques, capital budgeting, forecasting, and hedging techniques.

Accounting Standards Seminars

UD/FLAG offered two seminars in accounting on November 1-2, in Haskovo. The instructor was Zhivko Bonev. The topics covered included expected changes and current issues concerning Bulgarian Accounting Law with an emphasis on the adoption of international accounting standards. Boiko Kostov instructed the second seminar. Issues discussed included tax laws and current taxation according to the new developments in accounting and tax legislation. Fourteen accountants from nine local small and medium enterprises, two NGOs, and four private consultants attended the seminars.

Inventory Management Seminar

On November 9, UD/FLAG held a seminar in Inventory Management. The seminar was attended by 34 representatives of 24 export-oriented Bulgarian producers including ITC PLC, Alba Ltd., Aroma PLC, Balkanpharma Dupnitsa, Balkanpharma Troyan, Balkanpharma Razgrad, Balkanpharma Holding, Biovet, Biomachinostroene, Boruy, Vinprom Damyanitza, Vita Start, Geochim Consult and Engineering, Ditek, Eva, Ekels, Cabelsnab, Korabostroitelten Zavod Burgas, Medika Sandanski, Metalsnab, Pain Dor, Tandem V, Chimkomplekt Engineering, Hranserviceengineering, and one representative from the Institute for Market Economy. John Stocker, PhD in Finance, conducted the seminar.

The seminar helped the participating companies improve customer service, reduce inventory costs, increase productivity, and achieve international standards. The topics covered included usage and demand, lead-time and safety allowance, order cycle and line point, EOQ, min/max and

other replenishment methods, stock inventory investment, replenishment process, physical inventory, and cycle counting.

Export Promotion Seminar

UD/FLAG offered a seminar in Export Promotion on November 16. The seminar was held in conjunction with the regional Agency for Economic Development, Varna, and brought together 19 participants from 13 export-oriented companies and one BSO. The following companies were represented: Vamo PLC, Vinprom Alvina-Dobrich, Rodopa-Shumen, Lavena, Odesos Ltd., Kamchia PLC, Eleks Ltd., Ziesto PLC, Planex LZ PLC, Fresh Up Cosmetics Ltd., Incom Ltd., Delta Maritime, Vintex Ltd., and Varna Agency for SMEs.

The participants increased their knowledge and acquired new skills in foreign markets development and competitive strategies. Consultants from UD/FLAG, VEDA, the Export Promotion Center, and the Agency for Export Insurance presented at the seminar.

UD/FLAG Export Promotion and Competitive Strategies Training Outreach helps companies achieve improved capacity to export, increased competitiveness in foreign markets, and a better understanding of international trade principles. The seminar topics included foreign markets and partners, marketing research and competition investigation, intermediaries, strategic positioning on foreign markets, information gathering & analysis, marketing & sales plans & strategies, distribution & networking, direct sales, analysis of results, and financial matters.

Introduction to International Accounting Standards

UD/FLAG offered a course on International Accounting Standards in response to the high demand for a comprehensive and hands-on course on the subject in compliance with the new requirements of the Accounting Law leading to the adoption of IAS in Bulgaria. The course took place in Sofia from November 26 to December 1, and brought together 23 representatives of 13 private Bulgarian companies. Among them were Eleks Ltd., Ita Effect Ltd., Despred, Silvix Ltd., Pain Dor, Brilliant Invest, LKS Ltd., Napredak Holding, Kimaro Anis, Commodity Exchange Iliantzi, Biovet, Geochim Consult and Engineering, Chimkomplekt Engineering, and four banks: The National Bank of Greece, Bulgarian Post Bank, Tokuda Credit Express, and Eurobank. The trainers were Bulgarian experts and professionals from the Institute of Certified Expert Accountants – Zhivko Bonev, Vesselina Petkovska, Boiko Kostov, Totyo Totev, Tanya Konakchieva, and Dimitar Zhelyazkov.

The course explored the International Accounting Standards framework and concepts. The training was targeted toward leading Bulgarian companies and aimed to improve their compliance with international financial and accounting standards and their competitive performance, ability to satisfy external-reporting requirements, and adopt them with the purpose of achieving comparability across different industry sectors and countries.

The training program combined the most widely used IAS and compared them to the Bulgarian National Accounting Standards (NAS). This training provided an invaluable review of major IAS topics. For each topic covered, trainees received a clear and detailed explanation of the current

technical requirements, and the latest information about likely future developments. Trainees were presented with a description of the financial reporting environment (including the current and likely future legislative and regulatory framework and the accounting standards-setting mechanism) and a comprehensive review of technical accounting issues, particularly when these involved new developments or international accounting differences.

FINANCE FACILITATION

UD/FLAG is helping United Bulgarian Bank (UBB) utilize the Micro Enterprise and Small Business Loan Portfolio Guarantee. The purpose of the Guarantee is to help qualifying micro-enterprises and small businesses to mobilize credit through the formal financial sector for on the basis of a risk sharing arrangement. The Guarantee covers up to 50 percent of a bank's net loss on the principal of loans made to qualifying businesses.

UD/FLAG has made a commitment to support the implementation of the guarantee facility. As a result of UD/FLAG intervention, 27 loans totaling USD 1,284,199 have been put under guarantee.

UD/FLAG assisted First Investment Bank in developing the documentation for a Development Credit Authority (DCA) facility. The facility is a portfolio guarantee program for First Investment Bank to cover up to 50 percent of the risk exposure on the principal of loans to qualifying non-sovereign Bulgarian borrowers. A chief objective of the program is to promote long-term financing that increases the effectiveness and competitiveness of Bulgarian entrepreneurs.

Bulgarian Outdoor Network Ltd.

UD/FLAG assisted Bulgarian Outdoor Network in the preparation of a business plan for working capital financing of USD 150,000. Bulgarian Outdoor Network Ltd. managed to establish itself as one of the leading agencies for outdoor advertising. The financial results forecasts of the company for the next accounting period show turnover and profits of BGN 1,070,460 and BGN 227,505 respectively.

KomiCom Ltd.

FLAG/UD has assisted KomiCom in the preparation of a business plan for investment financing to the amount of USD 50,000. KomiCom Ltd. is an exclusive importer of exotic woods such as mahogany, and produces Evrostandart woodwork. The loan will enable the company to purchase new production facilities and enlarge its market presence.

MiziaCommerce Ltd.

UD/FLAG is helping MiziaCommerce Ltd. to overcome its shortage of working capital. MiziaCommerce supplies pork to large chains of stores, such as "Oasis" and "Fantastico". UD/FLAG is arranging a factoring scheme that will help the company overcome delayed payments and double its monthly turnover.

Sofiz

UD/FLAG is assisting Sofiz, a meat-processing company, in the preparation of a business plan for obtaining investment financing of USD 300,000. The company has a strong market presence and is affirmed as a producer of high-quality sausages and meat delicacies. This investment financing will enable Sofiz to move its production units to a new production site, helping it meet EU requirements. UD/FLAG is also arranging for a factoring scheme to help Sofiz in meeting its working capital needs.

Preslavles

UD/FLAG assisted Preslavles, a major woodcutting and wood-processing company, in obtaining USD 100,000 for working capital needs. UD/FLAG is also assisting Preslavles in the preparation of a business plan for obtaining USD 700,000 for both working and investment capital. Preslavles is located in the town of Veliki Preslav and has production units in Smyadovo and Vurbitsa. The company is one of the few employers in the region.

Golden Star Chemicals

UD/FLAG assisted Golden Star Chemicals, a small Bulgarian manufacturer of washing and cleaning products for household and auto applications as well as cosmetics, in the development of a distribution network. The firm purveys raw materials from the world-reknowned German companies *Helm* and *Henkel*. *Golden Star* products have export potential because of their high-quality raw materials and competitive prices in foreign markets. The company has a production line with a capacity of 6,000 500-ml bottles during an 8-hour shift.

To date, *Golden Star* has opened representative offices in the wholesale markets of 15 cities in the country and sold its products using outside distributors. Due to delayed collection of trade receivables and problems dealing with corruption, the owner has decided to concentrate his efforts on delivering products mainly in Sofia using his own distribution network. UD/FLAG arranged for a leasing scheme that enabled Golden Star Chemical to purchase six delivery vans in order to supply orders throughout the capital. Nine new jobs were created as an immediate result of the deal.

IPZ

UD/FLAG assisted IPZ in its efforts to attract an outside investment of USD 4.22 million for the construction of three small hydropower plants of a run-of-river type with total capacity of 3.7 MW. The main specifics of a small HPP are its low operational costs and easy maintenance, service, and control of its equipment. Hydropower plants are also environmentally superior to other types.

The hydropower plants are to be located in the Rhodope Mountains, the region of Smolyan, in Southern Bulgaria. The region traditionally exploits its water resources to produce electricity, as well as to run different tools and instruments, and small machines used in crafts.

UD/FLAG assisted IPZ in developing the business plan for the hydropower plants and in presenting the project to interested investors. The project has been submitted for evaluation to Eteba, which is the investment arm of the National Bank of Greece.

CONSULTING

1. SP Gergana 56, Manager Iliya Ganchev, based in the town of Vulchi Dol, Varna district, was consulted on expanding his business and facility processing, packaging, and trading spices. The consulting addressed the company's need for investment and a working capital loan as well as issues relating to its marketing strategy. UD/FLAG is currently developing a business plan for attracting outside financing.
2. ITL Tours Ltd, Pleven, Manager Violeta Petkova, was advised on setting up a country tourism cow farm. The farm facility and adjacent land are in place. The company needs credit for purchasing 30 cows and renovating their premises.
3. UD consultants advised Maria Kotseva, Financial Specialist, and Iskra Pavlova, International Cooperation Expert with Energokabel JSC (part of REI Holding Financial Industrial Group), on identifying and attracting an international partner related to their participation in the Ecolinks Challenge Grant competition. Energokabel will initiate a linkage with the U.S. Southwire Company, which is the supplier of Energokabel's original equipment, to research opportunities for equipment upgrades and acquisition of a new technology for the production of energy efficient cables.

C. CONTRIBUTION TO TARGETS

IR 1.3.2.1 Improved Business Performance of Private Sector Association Members		
INDICATOR	BASELINE	RESULT
1. Export increase in assisted priority industry clusters.	N/A	\$34,000
2. Value of linkages in assisted priority industry clusters.	N/A	\$1,534,199
3. Growth in employment in assisted target firms. (Jobs created and retained)	2	9
4. Domestic sales increase in assisted priority industry clusters.	\$24,000	\$68,000
5. Improved competitiveness and efficiency of target industry clusters measured by increased sales per employee ratio.	\$12,000	\$11,455
6. Number of companies from assisted priority industry clusters introducing international industry standards such as ISO, HACCP, AQL, IAS, etc.	N/A	N/A
TOTAL NUMBER OF PROJECTS COMPLETED:	TOTAL NUMBER OF VOLUNTEERS / TRAINERS PROVIDED:	TOTAL NUMBER OF BUSINESSES IMPACTED:
16	16	158

- Women-owned business: 0
- Women-managed business: 0
- Female employees: 196

NOTE: All of the above data is subject to Evaluation Committee verification.

D. FORECAST FOR NEXT QUARTER

- Sections II, III and IV of the Financial Management & Analysis Distance Training Course will take place in January, February and March, respectively. An in-class session will be held at the end of each Section. The sections will be instructed by UD/FLAG consultants John Stocker and Ilian Komitski and by two external experts - Ivailo Avramov and Milen Velushev.
- UD/FLAG will organize a seminar in Business Planning. The seminars will train representatives of two local eco-tourism initiative groups working on the BCEG project. The objective of the workshop is to identify eligible bankable projects to follow up with business plan development and submission to appropriate creditors. The instructors for the seminar will be UD/FLAG consultants John Stocker and Ilian Komitski.
- On 25 January, UD/FLAG will hold a training seminar in Accounting Standards. The seminar will take place in Varna and will be organized jointly with the Regional Agency for Economic Development. The seminar is in response to the need for updated discussion on developments in accounting legislation, especially concerning the requirements for adoption of International Accounting Standards. Zhivko Bonev and Boiko Kostov, members of the Institute of Certified Expert Accountants, will instruct the seminar.

Attachment A

IR 1.3.2.1 Improved Business Performance of Private Sector Association Members

Indicator # 1. Export increase in assisted priority industry clusters.

Indicator # 2. Value of linkages in assisted priority industry clusters.

Indicator # 3. Jobs created and retained. (Employment generated in assisted priority industry clusters.)

Indicator # 4. Domestic sales increase in assisted priority industry clusters.

Indicator # 5. Number of companies from assisted priority industry clusters introducing international industry standards such as ISO, HACCP, AQL, IAS, etc.

1.

a. Golden Star Chemicals, detergents manufacturer, distribution network development

b. UD/FLAG

c. Distribution network development

d. Baseline Data / Result Per Indicator

BASELINE DATA		RESULTS (give increment only)				
		Ind. #1	Ind. # 2	Ind. # 3	Ind. # 4	Ind. #5
1. Exports:	N/A	\$34,000	\$13,000	9	\$68,000	N/A
2. Value of linkages:	N/A					
3. Jobs created and retained	2					
4. Domestic sales:	\$24,000					
5. Introduction of international industry standards (list them).	-					

Attachment B
FLAG Coordination
ASD

1. ASD developed time series data of FLAG client records. ASD provided support to the two FLAG Committees and FLAG member organizations in collecting the TraiNet input data.
2. ASD continued to provide the three FLAG member organizations with monthly Implementation Status Reports and quarterly Client Baseline Reports.
3. ASD assisted the Tracking, Follow-on, and Evaluations Committee by providing reports of FLAG clients due for three, six, and twelve month evaluation and by generating Evaluations Committee database-programmed quarterly reports.
4. ASD published the FLAG Newsletter and distributed it to FLAG member organizations, other USAID-funded partners, major clients, RDAs, and local strategic partners.
5. ASD continued to provide maintenance and monthly updates of the FLAG web site.